



The Sewerage & Water Board OF NEW ORLEANS

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New Orleans City Council
1300 Perdido Street
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Honorable Members of the City Council:

I would like to take this moment to give you the full picture of the Sewerage and Water Board of New Orleans (SWBNO) financial landscape, considering the good news delivered Wednesday that we met our cash-on-hand bond obligations at the end of FY 2018.

Despite this positive milestone, SWBNO remains in a precarious financial situation, especially regarding its drainage funding. As of today, we still owe our vendors \$8.4 million for work they have diligently performed on our water, sewer and drainage systems. Additionally, our drainage account still owes our water and sewer accounts \$26.5 million that it borrowed to pay its debts regarding the emergency repairs after the 2017 flood even.

We carried \$34.9 million in accounts payable from 2018, putting us at a financial disadvantage before the year began.

Because drainage is funded through three property tax millages that total about \$56.6 million each year, we expect at least \$28.6 million of that to immediately be spent on existing expenses – vendors and debt owed to the water and sewer funds – when we receive our 2019 tax revenue in early March. That leaves us with less than \$28 million for 2019 drainage operations and maintenance, a sum we predict will be completely depleted as early as May.

It costs approximately \$56 million a year for drainage operations and maintenance alone, leaving little to no revenue for capital projects.

Now I would like to explain how we met our bond obligations at the end of 2018. It is important to emphasize that this does not mean we are “flush with cash.”

We reported Wednesday that SWBNO had 178.1 days of cash on hand for sewer and 179 days for water as of Dec. 31, 2018. That was due largely to an eleventh-hour influx of approximately \$21.9 million in FEMA reimbursements in December. Likewise, our bond counsel informed us in late November that approximately \$20 million in received FEMA payments, and another \$5 million in a separate reserve account, that SWBNO had labeled as restricted for capital projects also could be used to pay for operations and maintenance. That shift to unrestricted status gave us approximately 90 additional days of cash on hand each for water and sewer.

My new financial team has worked diligently to fully understand the accounting practices of past executive teams so that all SWBNO financial planning and fiscal oversight can be responsibly and transparently executed going forward.

None of the money in those two accounts was misallocated, as the media erroneously reported. It was held in a transfer account while our finance team thoroughly investigated which expenses in which accounts – water, sewer or drainage – it was meant to reimburse.

It is important to note that the FEMA reimbursements were one-time payments. We still have outstanding balances to cover and a need to create a reliable future revenue stream.

Because of our success in December, we accelerated our payments to our vendors, who have stood by us patiently and have been good partners for a long time. We paid more than \$30 million to them in January. But that action has negatively impacted our current cash flow for water and sewer, and we continue to accrue debts on the drainage side.

To reflect how dynamic our fiscal conditions are, we had 113 days of cash on hand for water, 93 days for sewer and -4 days for drainage on Jan 31, 2019.

We must continue to approach the budget of this critical utility conservatively and with great care until we can position it on firmer financial footing. I hope that you will continue to partner with us to make that happen.

Yours in service,



Ghassan Korban, Executive Director